

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>BESSEMER AREA SEWER AUTHORITY</b>	County <b>GOGEBIC</b>
Fiscal Year End <b>6/30/2006</b>	Opinion Date <b>2/23/2007</b>	Date Audit Report Submitted to State <b>2/26/2007</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

<sup>YES</sup> ☒ <sup>NO</sup> ☐ **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) <b>DAVID TRACZYK CPA</b>	Telephone Number <b>715-561-3299</b>		
Street Address <b>327 SILVER STREET</b>	City <b>HURLEY</b>	State <b>WI</b>	Zip <b>54534</b>
Authorizing CPA Signature 	Printed Name <b>DAVID TRACZYK CPA</b>	License Number <b>110011098</b>	

BESSEMER AREA SEWER AUTHORITY  
BESSEMER, MICHIGAN  
AUDITED FINANCIAL STATEMENTS

June 30, 2006 and 2005

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BESSEMER AREA SEWER AUTHORITY  
Management Discussion and Analysis  
Year ended June 30, 2006

This section of the Bessemer Area Sewer Authority (the 'Authority') annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended June 30, 2006. It is to be read in conjunction with the Authority's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB34) Basic Financial Statements – and Managements Discussion and Analysis – For State and Local Governments, as amended and interpreted, and is intended to provide the financial results for the fiscal years ended June 30, 2006, and 2005.

### GENERAL INFORMATION

The Authority was formed in 1985 to provide sewage disposal for the City of Bessemer and Bessemer Township residents that were served by the separate municipal systems. The Authority was created by the 2 municipalities and is operated independent from the municipalities. It is governed by a Board of Trustees that are appointed by the member municipalities.

Each of the member municipalities have adopted sewer use ordinances to set rates charged to their customers. These municipalities contract with the Authority for sewage disposal services. In 1987 and 1998 the Authority issued bonds to fund plant construction. The member municipalities are obligated to pay for services in amounts sufficient to cover the operating costs and debt obligations of the Authority.

In 2004, the Authority approved an agreement with Powderhorn Area Utility District (PAUD) to provide sewage disposal services. This agreement states that the Authority will perform routine maintenance for PAUD. The Authority will charge for these services at its cost. In connection with this agreement, PAUD will provide plant improvements to assets of the Authority. It is estimated that total improvements to the plant will amount to approximately \$975,000. As of June 30, 2006, project costs of \$108,881 have been incurred. These costs are being paid by PAUD as part of the connection fee. These assets and related capital contributions will be recorded when the project is substantially complete, which is expected in 2007.

### FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities as of June 30, 2006 and 2005 by \$5,628,555 and \$5,720,439, respectively.
- The Authority's investment in capital assets, net of related debt as of June 30, 2006 and 2005 was \$5,177,069 and \$5,252,846, respectively.
- The Authority's total revenue for the fiscal years ended June 30, 2006 and 2005, were \$308,950 and \$328,887, respectively.
- The Authority's total expenses for the fiscal years ended June 30, 2006 and 2005 were \$409,265 and \$396,623, respectively.
- There were no plant additions or capital contributions during the fiscal years, except as indicated in the preceding paragraph.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The following financial statements are included in this report:

- Statement of Net Assets – reports the Authority current financial resources: its cash and other current assets, its current and non-current liabilities and comparing those two elements, the resulting net assets of the Authority.
- Statement of Revenue, Expenses and Changes in Net Assets – reports the Authority's various revenue and expenses.
- Statement of Cash Flows – reports sources and uses of cash by operating activities, capital and related financing activities, and investing activities.

## ANALYSIS OF FINANCIAL STATEMENTS

### Condensed Financial Information

#### Statement of Net Assets

The following is a condensed statement of net assets with a detailed analysis of the statement below as of June 30,

ASSETS			
	2006	2005	Increase (Decrease)
Current Assets:			
Checking / Savings	\$ 17,023	\$ 43,292	\$ (26,269)
Other Current Assets	199,228	210,465	(11,237)
Total Current Assets	216,251	253,757	(37,506)
Fixed Assets	7,580,069	7,706,846	(126,777)
Other Assets	273,033	248,519	24,514
TOTAL ASSETS	<u>\$ 8,069,353</u>	<u>\$ 8,209,122</u>	<u>\$ (139,769)</u>
LIABILITIES & EQUITY			
Current Liabilities:			
Account Payable	\$ 1,595	\$ 2,247	\$ (652)
Other Current Liabilities	87,203	83,436	3,767
Total Current Liabilities	88,798	85,683	3,115
Other Liabilities	2,352,000	2,403,000	(51,000)
Total Liabilities	2,440,798	2,488,683	(47,885)
Equity	5,628,555	5,720,439	(91,884)
TOTAL LIABILITIES & EQUITY	<u>\$ 8,069,353</u>	<u>\$ 8,209,122</u>	<u>\$ (139,769)</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 5,177,069	\$ 5,252,846	\$ (75,777)
Restricted for debt service	78,954	65,078	13,876
Restricted for capital projects	194,079	183,441	10,638
Unrestricted	178,453	219,074	(40,621)
Total Net Assets	<u>\$ 5,628,555</u>	<u>\$ 5,720,439</u>	<u>\$ (91,884)</u>

Capital assets, net of related debt is derived by taking the original cost of the Authority's assets, subtracting accumulated depreciation to date, and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets.

The total unrestricted net assets is the net accumulated result of the current and past year's operations. The nature of the Authority's operations is based on charges for services and federal grants. The balance in the unrestricted net assets shows that the Authority has an ample amount of assets to fund liabilities at June 30, 2006.

## Statement of Revenues, Expenses, and changes in Net Assets

The results of operations for the Authority are reported in the statement of revenues, expenses, and changes in net assets. A summary of the results of operations are as follows for the years ended June 30,

	2006	2005	Increase (Decrease)
Operating Revenues:			
Charges for services	\$ 307,801	\$ 319,919	\$ (12,118)
Miscellaneous	213	5,187	(4,974)
Total Operating Revenue	308,014	325,106	(17,092)
Operating Expenses	292,697	277,830	14,867
Operating Income	15,317	47,276	(31,959)
Other Revenue (Expenses):			
Interest Income	9,367	3,781	5,586
Interest Expense	(116,568)	(118,793)	2,225
Capital contributions	-	-	-
Change in Net Assets	(91,884)	(67,736)	(24,148)
Beginning Net Assets	5,720,439	5,788,175	(67,736)
Ending Net Assets	<u>\$ 5,628,555</u>	<u>\$ 5,720,439</u>	<u>\$ (91,884)</u>

Depreciation expense of \$126,777 and \$126,802 were charged to operating expenses for the years ended June 30, 2006 and 2005, respectively.

### Fund Budget Items

The Authority prepared an annual budget and revises it to account for changes in expenditures as needed.

### Capital Assets

At June 30, 2006, the Authority had \$5,177,069 invested in capital assets, net of accumulated depreciation. Assets were capitalized at historical cost. The Authority had no plant additions during the years ended June 30, 2006 and 2005, except as noted in the last paragraph under general information.

### Debt

The Authority has \$2,403,000 of long-term liabilities at June 30, 2006. This amount consists of bonds payable to USDA Rural Development. Detail on the bonds can be found in the notes to the financial statements.

### Future Considerations

Plant improvements of approximately \$975, 000 are planned for completion in 2007. These improvements are anticipated to be funded entirely by other governmental agencies at no cost to the Authority.

## **Contacting the Authority**

If you have any questions about this report or need additional information, contact the Authority Administrator at 411 S. Sophie Street, Bessemer, MI 49911, telephone 906-667-0800.



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# DAVID TRACZYK

## Certified Public Accountant

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### INDEPENDENT AUDITOR'S REPORT

Chairman and Members of the Board  
Bessemer Area Sewer Authority  
Bessemer, Michigan

I have audited the accompanying financial statements of Bessemer Area Sewer Authority, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bessemer Area Sewer Authority as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 23, 2007,, on my consideration of the Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis information on pages 3 through 7, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

February 23, 2007

# BESSEMER AREA SEWER AUTHORITY

## STATEMENT OF NET ASSETS

June 30,

### ASSETS

	<u>2006</u>	<u>2005</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 17,023	\$ 43,292
Investments	187,552	180,400
Due from other governments	1,618	19,922
Prepaid expenses	<u>10,058</u>	<u>10,143</u>
Total current assets	216,251	253,757
<b>NONCURRENT ASSETS</b>		
<b>RESTRICTED ASSETS</b>		
Cash and cash equivalents	<u>273,033</u>	<u>248,519</u>
Total restricted assets	273,033	248,519
<b>CAPITAL ASSETS</b>		
Property, plant and equipment	9,574,375	9,574,375
Less accumulated depreciation	<u>(1,994,306)</u>	<u>(1,867,529)</u>
Total capital assets	<u>7,580,069</u>	<u>7,706,846</u>
Total noncurrent assets	<u>7,853,102</u>	<u>7,955,365</u>
Total assets	<u><u>\$ 8,069,353</u></u>	<u><u>\$ 8,209,122</u></u>

See accompanying notes to basic financial statements.

BESSEMER AREA SEWER AUTHORITY  
STATEMENT OF NET ASSETS  
June 30,

LIABILITIES

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,595	\$ 2,247
Accrued payroll	<u>17,118</u>	<u>12,939</u>
Total current liabilities	18,713	15,186
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accrued interest	19,085	19,497
Notes and bonds payable	<u>51,000</u>	<u>51,000</u>
Total current liabilities payable from restricted assets	70,085	70,497
NONCURRENT LIABILITIES		
Notes and bonds payable, net	<u>2,352,000</u>	<u>2,403,000</u>
Total noncurrent liabilities	<u>2,352,000</u>	<u>2,403,000</u>
Total liabilities	<u>2,440,798</u>	<u>2,488,683</u>

NET ASSETS

Invested in capital assets, net of related debt	5,177,069	5,252,846
Restricted for debt service	78,954	65,078
Restricted for capital projects	194,079	183,441
Unrestricted	<u>178,453</u>	<u>219,074</u>
Total net assets	<u>\$ 5,628,555</u>	<u>\$ 5,720,439</u>

See accompanying notes to basic financial statements.

BESSEMER AREA SEWER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Years ended June 30,

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Services to member municipalities	\$305,040	\$319,919
Services to others	2,761	-
Miscellaneous revenue	<u>213</u>	<u>5,187</u>
Total operating revenues	308,014	325,106
Operating expenses:		
Administrative wages	3,763	3,402
Other administration	13,350	5,904
Insurance	13,703	13,825
Salaries and wages	68,642	65,194
Fringe benefits	37,785	31,725
Supplies	7,029	8,040
Utilities	20,157	17,592
Repairs and maintenance	1,491	5,346
Depreciation	<u>126,777</u>	<u>126,802</u>
Total operating expenses	<u>292,697</u>	<u>277,830</u>
Operating Income (Loss)	15,317	47,276
Non-operating revenues (expenses):		
Interest income	9,367	3,781
Interest expense	<u>(116,568)</u>	<u>(118,793)</u>
Total non-operating revenue (expenses)	<u>(107,201)</u>	<u>(115,012)</u>
Net Income Before Contributions	(91,884)	(67,736)
Capital contributions	<u>-</u>	<u>-</u>
Change in Net Assets	(91,884)	(67,736)
Net Assets at Beginning of Year	<u>5,720,439</u>	<u>5,788,175</u>
Net Assets at End of Year	<u><u>\$ 5,628,555</u></u>	<u><u>\$ 5,720,439</u></u>

See accompanying notes to basic financial statements.

BESSEMER AREA SEWER AUTHORITY  
STATEMENT OF CASH FLOWS  
Years ended June 30,

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$326,318	\$315,699
Payments to suppliers	(94,082)	(79,773)
Payments to employees	<u>(68,226)</u>	<u>(68,596)</u>
Net Cash Provided (Used) by Operating Activities	164,010	167,330
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	-	-
Capital contributions	-	-
Principal paid on notes and bonds payable	(51,000)	(45,000)
Interest paid on notes and bonds payable	<u>(116,980)</u>	<u>(119,155)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	(167,980)	(164,155)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(7,152)	(74,662)
Proceeds from sale of investments	-	73,238
Interest received on investments	<u>9,367</u>	<u>3,781</u>
Net Cash Provided (Used) by Investing Activities	<u>2,215</u>	<u>2,357</u>
Net Increases (Decrease) in Cash and Cash Equivalents	(1,755)	5,532
Balances - Beginning of Year	<u>291,811</u>	<u>286,279</u>
Balances - End of Year	<u>\$ 290,056</u>	<u>\$291,811</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$15,317	\$47,276
Adjustments to reconcile operating income (loss) to net cash provided (Used) by operating activities:		
Depreciation	126,777	126,802
Change in assets and liabilities:		
Accounts receivable	18,304	(9,407)
Prepaid expenses	85	(51)
Accounts payable	<u>3,527</u>	<u>2,710</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 164,010</u>	<u>\$167,330</u>
Noncash investing, capital and financing activities:	none	none

See accompanying notes to basic financial statements.

# BESSEMER AREA SEWER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Bessemer Area Sewer Authority (the Authority) provides sewage transmission and treatment services to customers located within the City of Bessemer and a portion of the Township of Bessemer, Michigan. The system became operational July 1, 1988. The Authority was incorporated February 28, 1985, to acquire, own, improve, enlarge, extend and operate a sewage disposal system in accordance with Act 233, Public Acts of Michigan, 1955, as amended. The Authority is governed by a Board of Trustees comprised of members from the two constituent municipalities, City of Bessemer and Township of Bessemer, Michigan. Service charges for sewage disposal services are in conformity with a sewer use ordinance adopted by the participants in connection with the sewage disposal system bonds issued to help finance construction of the system.

In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP). The basic – but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing Authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its constituents, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the Authority contain all the funds and account groups controlled by the Authority's Board as no other entity meets the criteria to be considered a component unit of the Authority nor is the Authority a component unit of another entity.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America. The Authority applies all relevant Government Accounting Standards Board (GASB) pronouncements. As enterprise funds, the Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Authority has not adopted GASB Statement No. 20.

The accrual basis of accounting is used by the Authority. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred. The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted; and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating revenues and expenses are distinguished from nonoperating items in the statement of revenues, expenses and changes in net assets. Operating revenues and expenses result from providing services in connection with the Authority's principal ongoing operations. Principal operating revenues of the Authority are charges to member municipalities to recover the costs within the individual municipalities. The charges to recover the financing costs are allocated to the member municipalities based on construction cost allocations. Operating expenses include the cost of providing sewage treatment, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal nonoperating revenues of the Authority are grants and investment income. The principal nonoperating expenses of the Authority include interest expense.

Capital grant funding represents amounts received from capital project grants which are restricted to capital acquisition or construction. The Authority recognizes capital grant funding when the grants are earned which is generally when the related capital expenditure is made.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Deposits and Investments

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory authority.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

#### Receivables

The amount due from other governments consists of charges to member municipalities for administration and financing costs. All amounts have been determined to be collectible and no allowance has been recorded.

The Authority does not accrue unbilled service at the end of the year with respect to service provided but not billed at such date.

#### Capital Assets

Capital assets are generally defined by the Authority as assets with an initial, individual cost of more than \$1,000. Maintenance and repair costs are charged to expense as incurred.

Capital assets are reported at cost or the fair market value at the time of contribution to the Authority. Major outlays for plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the plant constructed, net of interest earned on the invested proceeds over the same period. Capital assets in service are depreciated using the straight-line method over the following useful lives:

Treatment plant	50
Machinery & equipment	7 - 12
Collection system	50 - 100
General	5



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Compensated Absences

The Authority has two full time employees. They are allowed to accumulate sick leave up to 110 days. Upon severance, the employees are allowed to be paid for unused sick leave up to 100 days, prorated based on years of service. They are also allowed vacations based on years of service. The amounts of accrued compensated absences as of June 30, 2006 and 2005 has been record as a current liability.

#### Equity Classifications

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond's mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

### NOTE B – CASH AND INVESTMENTS

All deposits were made in a bank authorized by the Board of Trustees and under authority of State of Michigan deposit laws. All deposits were made in financial institutions whose deposits are covered by federal depository insurance. For the purpose of the statement of cash flows, the Authority considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. Investing is performed in accordance with investment policies complying with state statutes.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE B – CASH AND INVESTMENTS (continued)

The Authority's cash and investments consist of funds on hand and on deposit with local financial institutions as follows:

	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
June 30, 2005:			
Petty cash	\$ 90	\$ -	90
Demand deposits	302,975	-	302,975
Certificates of Deposits	<u>-</u>	<u>180,400</u>	<u>180,400</u>
	303,065	180,400	483,465
Less outstanding items	<u>(11,254)</u>	<u>-</u>	<u>(11,254)</u>
Balance	<u><u>\$ 291,811</u></u>	<u><u>\$ 180,400</u></u>	<u><u>\$ 472,211</u></u>
June 30, 2006:			
Petty cash	\$ 138	\$ -	138
Demand deposits	295,547	-	295,547
Certificates of Deposits	<u>-</u>	<u>187,552</u>	<u>187,552</u>
	295,685	187,552	483,237
Less outstanding items	<u>(5,629)</u>	<u>-</u>	<u>(5,629)</u>
Balance	<u><u>\$ 290,056</u></u>	<u><u>\$ 187,552</u></u>	<u><u>\$ 477,608</u></u>

In accordance with GASB No. 3, risk disclosure for bank deposits, the June 30 balances consisted of:

	<u>2006</u>	<u>2005</u>
a. Insured or collateralized with securities held by the entity or by its agent in the entity's name.	\$ 377,012	\$ 415,648
b. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.	-	-
c. Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name.)	<u>106,225</u>	<u>67,817</u>
	<u><u>\$ 483,237</u></u>	<u><u>\$ 483,465</u></u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE B – CASH AND INVESTMENTS (continued)

The above amounts include cash reserved as follows:

	June 30, 2006	2005
1. Bond and Interest Redemption Fund This account receives quarterly deposits to be used solely for payment of principal and interest of the bond issues and to fund the bond reserve accounts.	\$ 14,775	\$ 1,149
2. Bond Reserve Account (1998 issue) Starting April 1, 1998, quarterly deposits of \$1,685 are to be deposited into this account until \$67,400 is accumulated. These funds are to be used solely to pay the principal and interest of the 1998 bond issue as to which there would otherwise be default. The minimum required balance as of June 30, 2006 was \$55,605.	64,178	63,929
3. Replacement Fund This account is required to receive \$9,206 per year in accordance with provisions of the U.S. Environmental Protection Agency grant received in 1987. Funds are to be deposited into this account after the above 2 accounts are funded. These funds may be used to pay for the cost of repairing or replacing obsolete, deteriorating, deteriorated or worn out portions of the sewage disposal system, and when necessary, for the purpose of making payments of principal and interest on the 1998 and 1987 bond issues. The minimum required balance as of June 30, 2006 was \$159,874	167,955	157,526
4. Improvement Fund This account is authorized to receive \$7,945 per year in accordance with provisions of the 1998 bond issue and approval of the Board. Funds are to be deposited into this account after the above 3 accounts are funded. These funds may be used only for the purpose of paying the cost of making improvements to the system, and when necessary, for the purpose of making payments of principal and interest on the 1987 or 1998 bond issues.	26,125	25,915
Total Cash Reserved	<u>\$ 273,033</u>	<u>\$ 248,519</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE C – CAPITAL ASSETS

A summary of property, plant and equipment and related depreciation data, follows:

Plant Cost	June 30, 2005	Additions	Retirements	June 30, 2006
Land	\$ 46,850	\$ -	\$ -	\$ 46,850
Treatment plant	2,883,021	-	-	2,883,021
Collection system	6,507,936	-	-	6,507,936
Machinery and equipment	136,568	-	-	136,568
	<u>\$ 9,574,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,574,375</u>

Accumulated Depreciation	Estimated Useful Lives	June 30, 2005	Additions	Retirements	June 30, 2006
Land	N/A	\$ -	\$ -	\$ -	\$ -
Treatment plant	50 years	980,220	57,660	-	1,037,880
Collection system	50-100 years	775,218	65,555	-	840,773
Machinery and equipment	5-12 years	112,091	3,562	-	115,653
		<u>\$ 1,867,529</u>	<u>\$ 126,777</u>	<u>\$ -</u>	<u>\$ 1,994,306</u>

### NOTE D – CONSTRUCTION PROJECT

On July 2, 2003, the Authority approved a contract with the Powderhorn Area Utility District (PAUD). PAUD is a special purpose government that was formed in 2001 to acquire and operate a sewage disposal system. PAUD provides services to customers in portions of Bessemer Township and the Charter Township of Ironwood.

Terms of the contract require the Authority to construct plant improvements up to \$975,000. These costs are to be financed by a connection fee of \$975,000 to be paid by PAUD. As of June 30, 2006, \$108,881 of project costs had been incurred. These costs are being paid by PAUD, as payments toward the connection fee.

In January of 2006, the Authority began providing treatment services on behalf of PAUD. During the year ended June 30, 2006, \$2,671 was recognized as revenue by the Authority. PAUD is expected to be in full operation in 2007, at which time, a flat monthly fee of \$1,400 will be charged by the Authority.

The assets constructed as part of this project and the related capital contribution by PAUD will be recorded by the authority upon substantial completion, which is expected in 2007.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE E – LONG TERM DEBT

On March 18, 1987, the Board of Trustees adopted a resolution which was amended on June 17, 1987, authorizing the issuance of \$ 1,700,000 of Sewage Disposal System No. 1 Bonds (Limited Tax General Obligation) pursuant to Act 233, Public Acts of Michigan, 1955, as amended. The Authority has entered into a contract with each of the constituent municipalities whereby the municipalities have each pledged its limited tax full faith and credit for the payment of the municipality's share of the obligation. The municipalities will be required to levy ad valorem taxes within applicable constitutional and statutory tax limitations on all taxable property within their boundaries to the extent necessary to make the payments required to pay principal and interest on the bonds if other funds for that purpose are not available. The bonds are in the form of a single, fully-registered bond of the denomination of \$ 1,700,000, dated May 1, 1987, and are payable in principal installments serially on May 1 of each year and interest installments at the annual rate of 5% a year on May 1 and November 1 of each year.

On May 11, 1998, the Board of Trustees issued \$ 1,237,000 Sanitary Sewage Disposal System Revenue Bonds Series 1998, pursuant to Act 94, Public Acts of Michigan, 1933, as amended. The bonds are in the form of a single, fully registered bond of the denomination of \$ 1, 237,000, dated May 11, 1998, and are payable in principal installments serially on May 1 of each year and interest installments at the annual rate of 4.5% a year on May 1 and November 1 of each year.

A summary of changes in long-term debt are as follows:

	Balance 6.30.05	Additions	Retired	Balance 6.30.06	Due within One Year
1987 Bond Issue	\$ 1,310,000	\$ -	\$ 35,000	\$ 1,275,000	\$ 35,000
1998 Bond Issue	<u>1,144,000</u>	<u>-</u>	<u>16,000</u>	<u>1,128,000</u>	<u>16,000</u>
	<u>\$ 2,454,000</u>	<u>\$ -</u>	<u>\$ 51,000</u>	<u>\$ 2,403,000</u>	<u>\$ 51,000</u>

The aggregate maturities for the bonds for years subsequent to June 30, 2006, are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 51,000	\$ 114,510	\$ 165,510
2008	52,000	112,040	164,040
2009	58,000	109,525	167,525
2010	59,000	106,715	165,715
2011	59,000	103,860	162,860
2012-2016	358,000	472,055	830,055
2017-2021	460,000	375,630	835,630
2022-2026	594,000	251,865	845,865
2027-2031	317,000	123,980	440,980
2032-2036	270,000	65,210	335,210
2037-2038	<u>125,000</u>	<u>8,460</u>	<u>133,460</u>
	<u>\$ 2,403,000</u>	<u>\$ 1,843,850</u>	<u>\$ 4,246,850</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE F – PENSION PLAN

On March 3, 1999, the Authority established a simple IRA pension plan. The plan became effective July 1, 1999. The plan covers all employees that receive at least \$ 5,000 in compensation during any 2 preceding years and is reasonably expected to receive at least such amount during the current year.

The terms of the plan state that the Authority will match voluntary employee contributions to the plan, up to a maximum of 3% of the eligible wages.

The Authority's total payroll for the years ended June 30, 2006 and 2005 was \$70,665, and \$68,596, respectively. Annual contributions to the pension plan were \$1,157 and \$1,123, based on eligible wages of \$38,522 and \$37,439 for 1 employee for the years ended June 30, 2006 and 2005, respectively.

### NOTE G – RELATED PARTY TRANSACTIONS

Terms of a sewer use ordinance call for each member municipality of the Authority to make payments to the Authority. The payments shall be sufficient to cover the operating costs and debt obligations of the Authority. These payments are allocated and billed by the Authority to the members based on percentages used to estimate the respective use of the facilities. During the years ended June 30, 2006 and 2005, the Authority recognized the following revenues from its contacting members:

	<u>June 20, 2006</u>	<u>June 20, 2005</u>
City of Bessemer	\$ 272,783	\$ 287,662
Bessemer Township	<u>32,257</u>	<u>32,257</u>
Total	<u>\$ 305,040</u>	<u>\$ 319,919</u>

### NOTE H – COMMITMENTS AND CONTINGENCIES

In the normal course of construction projects, the Authority receives loan and grant funds from various federal and state agencies. These programs are subject to audit by agents of the lending and granting agencies, the purpose of which is to ensure compliance with conditions precedent to the awarding of funds. Any liability for reimbursement which may arise as a result of these audits is not believed to be material.

### NOTE I – RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority has obtained coverage from a commercial insurance company. The Authority has comprehensive general liability coverage of \$1,000,000 per occurrence and \$3,000,000 in the aggregate and has obtained worker' compensation coverage.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE I – RISK MANAGEMENT (continued)

All risk management activities are accounted for in the financial statements of the Authority. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Authority as of June 30, 2006, will not materially affect the financial condition of the Authority. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

### NOTE J – ECONOMIC DEPENDENCY

The Authority operates on finances and guarantees provided by the member municipalities. Accordingly, the Authority is dependent on the continuing support provided by these member municipalities.

## OTHER FINANCIAL INFORMATION



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# DAVID TRACZYK

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Chairman and Members of the Board  
Bessemer Area Sewer Authority  
Bessemer, Michigan

I have audited the financial statements of Bessemer Area Sewer Authority as of and for the years ended June 30, 2006 and 2005, and have issued my report thereon dated February 23, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Bessemer Area Sewer Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

#### Compliance

As part of obtaining reasonable assurance about whether Bessemer Area Sewer Authority's financial statements are free of material misstatement, I performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards as follows:

## 2006-1 Charges of Services

Condition: One of the member municipalities reduced to amount billed by the Authority for charges for services by \$17,871. The member claims the Authority over billed the member for several years. No effort was made by the Authority to collect the disputed amount. Therefore, it was not recognized as revenue.

Criteria: The user rate ordinance states that rates will be established on an annual basis according to a formula included in the ordinance. These rates are to be established as part of the annual budget process.

Effect: This resulted in the Authority collecting less revenue than anticipated.

Cause: The member claims that the formula used to allocated certain costs has not been calculated correctly.

Recommendation: The rate ordinance should be reviewed and updated. The Authority should also determine what, if any, action will be taken to recover the charges.

I also noted certain additional matters that I reported to management of the Authority in a separate letter dated February 23, 2007.

This report is intended solely for the information and use of management and member municipalities, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

February 23, 2007